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The right to adequate housing

Note by the Secretary-General

The Secretary-General has the honour to transmit to the General Assembly the report of the Special Rapporteur on adequate housing as a component of the right to an adequate standard of living and on the right to non-discrimination in this context, Raquel Rolnik, submitted in accordance with Human Rights Council resolution 15/8.

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Special Rapporteur on adequate housing as a component of the right to an adequate standard of living

Summary

In the present report, the Special Rapporteur on adequate housing analyses the ruling paradigm of housing policies that focus on housing finance as the main means of promoting homeownership. The report assesses the impact of prevalent housing finance policies on the right to adequate housing of those living in poverty. The Special Rapporteur concludes that the full realization of the right to adequate housing, without discrimination, cannot be promoted solely by financial mechanisms and requires broader and more holistic housing policies and State interventions. She calls for a paradigm shift from housing policies based on the financialization of housing to a human rights-based approach to housing policies.

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I. Introduction

1. When the acute misery of the urban poor began to be revealed by social reformers in Europe and North America in the late nineteenth and early twentieth centuries, Governments began to provide housing assistance to individuals and households and to supply housing directly.[1] By the middle of the twentieth century many developing countries in Latin America, Africa and Asia had experienced rapid urbanization of the rural poor. The absence of urban and housing policies to enable this new urban population to access urbanized land led to the creation of self-built informal settlements, characterized by precarious dwellings and a severe lack of basic services and infrastructure (see A/HRC/10/7). During the same period, the situation was different in most formerly planned economies, where the State was responsible for providing all citizens with adequate housing and the model of centrally planned construction of State rental housing was applied.[2]

2. In the late 1970s a dramatic shift occurred in housing policies, starting with North America and Europe, followed later by developing countries in Latin America, Asia, Africa and by formerly planned economies. This shift, supported by predominant economic doctrine, called for the transfer of activities from State control to the private sector and for unrestricted free markets and free trade. This view soon gained hegemony, shaping the policies of States, international financial institutions and development agencies. The effects of this approach on housing policies across the globe have been dramatic and well documented (ibid.).

3. A growing consensus was formed, according to which Governments should renounce their role as suppliers of affordable housing and become facilitators, supporting market demand rather than directly providing outcomes: "Governments should be encouraged to adopt policies that enable housing markets to work ... and avoid distorting housing markets."[3] This new role implies creating conditions, institutions and regulations aimed at supporting housing finance systems to promote homeownership under the neoliberal dogma of reliance on private property and market forces.[4]

4. Developed and developing countries have thus been steadily moving away from traditional supply-side assistance to demand-side policies. As a result, support for households to take on credit debt, the financial sector and the private housing market became the primary mechanisms for allocating housing solutions. Foreign

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[1] For example, in the United Kingdom of Great Britain and Northern Ireland, about 5.5 million social dwellings were constructed between the end of the Second World War and 1981. M. Harloe, *The People's Home: Social Rented Housing in Europe and America* (Hoboken, New Jersey, Wiley-Blackwell, 1995); D. Fée, "Le logement social en Angleterre: trente ans de déclin", *Informations Sociales*, No. 159 (March 2010), p. 82.

[2] József Hegedüs, Stephen E. Mayo and Iván Tosics, "Transition of the Housing Sector in the East Central European Countries", *Review of Urban & Regional Development Studies*, vol. 8, No. 2 (July 1996), p. 101; Economic Commission for Europe (ECE), *Housing Finance Systems for Countries in Transition: Principles and Examples* (New York and Geneva, 2005); Mark Stephens, "Locating Chinese Urban Housing Policy in an International Context", *Urban Studies*, vol. 47, No. 14 (December 2010), pp. 2965 and 2971.

[3] World Bank, *Housing: Enabling Markets to Work*, World Bank Policy Paper (Washington, D.C., 1993), p. 6.

[4] J. Doherty and others, *The Changing Role of the State: Welfare Delivery in the Neoliberal Era* (Brussels, European Federation of National Organisations Working with the Homeless (FEANTSA), 2005).

assistance from international organizations greatly influenced the development of market-based housing finance and boosted housing market activity in developing countries.[5] Despite some diversity in housing policy experience, most countries opted for promoting housing markets and individual homeownership, privatizing social housing programmes and deregulating housing finance markets.

5. In some countries, selling publicly owned houses to tenants has been seen as a way to increase homeownership while diminishing State expenditure.[6] Privatization was also supported by increased stigmatization of public housing as centres of extreme poverty, crime and segregation. In Europe and North America, the privatization of public housing has taken various forms, including the sale to sitting tenants of public rented housing through right-to-buy policies (e.g. the United Kingdom), property transfers to not-for-profit actors (e.g. the Netherlands) and, in some cases, to profit-maximizing actors (e.g. Germany[7] and the United States of America[8]).

6. During the 1990s, most formerly planned economies also embarked on projects of large-scale privatization of public housing through "right to buy" programmes, resulting, in some cases, in the almost complete eradication of public housing. In most countries,[9] this process led to radical changes in tenure structure; in many formerly planned economies owner-occupied housing now forms more than 90 per cent of the housing stock (e.g. 96 per cent in Estonia, 77 per cent in Slovenia[10] and more than 80 per cent in China).

7. Even in countries where massive privatization did not take place, the ideological transfer of responsibility for provision of housing to the market has been accompanied by the view that homeownership is the best tenure option, to be placed at the centre of all housing policies. This process has overshadowed other well-established or alternative tenures, such as rental housing (public and private) and different forms of cooperative and collective ownership, among others.[11] Consequently, since the end of the Second World War homeownership rates have been constantly climbing[12] and by mid-2000 had reached more than 50 per cent in

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[5] ECE, *Housing Finance Systems for Countries in Transition*, p. 7; World Bank, *The Emerging Role of Housing Finance* (Washington, D.C., 1988).

[6] United Nations Human Settlements Programme (UN-Habitat), *Affordable Land and Housing in Europe and North America* (Nairobi, 2011), p. 9.

[7] K. Scanlon and C. Whitehead, "Le logement social en Europe: tendances communes et diversités persistantes", in C. Lévy-Vroelant and C. Tutin, eds., *Le logement social en Europe au début du XXIe siècle: la revision générale* (Rennes, France, Presses Universitaires de Rennes, 2010), p. 24.

[8] In the United States, the Housing and Community and Development Act of 1974 ended most new construction of public housing and initiated the Housing Choice Voucher Program (Section 8), shifting funds from public housing authorities to the private sector, which was to construct low-income housing. These "affordable" houses were eventually too costly for many public housing tenants (A/HRC/13/20/Add.4, paras. 10, and 25).

[9] Only a few countries did not adopt the "right to buy" for tenants (e.g. the Czech Republic and Poland).

[10] Replies from Estonia and Slovenia to the questionnaire sent by the Special Rapporteur to Member States on 5 April 2012 (hereafter "the questionnaire").

[11] Julie Lawson, Tony Gilmour and Vivienne Milligan, *International Measures to Channel Investment towards Affordable Rental Housing* (Australian Housing and Urban Research Institute, 2010); Fée, p. 80.

[12] Mikael Atterhög and Han-Suck Song, "A Survey of Policies that May Increase Access to Home Ownership for Low-Income Households", *Housing Theory and Society*, vol. 26, No. 4 (2009), pp. 248-249.

the member States of the Organization for Cooperation and Development (OECD), with the exception of Germany and Switzerland.[13]

8. The need for housing finance systems was quickly identified as a crucial element in this transformation. Housing finance refers to financial policies and programmes that aim to finance the cost of housing for individuals and families by providing loans (mortgages or microloans) or grants (subsidies or tax exemptions) for the purchase, rental, construction or improvement of housing.

9. The majority of housing finance policies and strategies currently employed are targeted towards individuals rather than institutional landlords, aim to promote ownership, and are based on the premise that the housing market, if properly designed and regulated, and with the necessary supporting legal and institutional framework, is capable of ensuring access to adequate and affordable homeownership for all.

10. Housing finance is now perceived not only as a tool for promoting access to adequate housing but also as critical to the development of the financial sector, and has become a central pillar of the financial market, expanding the terrain for global capital.[14] The deregulation, liberalization and internationalization of finance that started in the 1980s had major implications for housing and urban development. Funds for mortgage lending now derive from national and international capital markets and not solely from existing savings and retail finance. These developments have been characterized as the "financialization" of housing".[15]

11. This process has been accompanied by the conceptual transformation of adequate housing from a social good into a commodity and a strategy for household wealth accumulation and welfare security. Housing has become a financial asset ("real estate"), and housing markets are increasingly regulated so as to promote the financial aspects rather than the social aspects of housing. The real estate sector is perceived as a potential driving force for continued and sustainable economic growth.[16]

12. Yet, market-based housing finance has contributed to a widespread bubble in real estate prices and a decrease in affordability and has done little to promote access to affordable adequate housing for the poorest. Between 1997 and 2004 average housing prices grew by 149 per cent in Spain, 139 per cent in the United Kingdom, 187 per cent in Ireland, 112 per cent in Australia, 65 per cent in the United States and 227 per cent in South Africa.[17] As real estate prices and rents increased and came to be financed through global instead of local financial surpluses, more households faced difficulties in accessing adequate housing in the market. Many observers have pointed to the negative impacts of housing asset

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[13] Spain and Ireland lead with 83.2 per cent and 91.4 per cent, respectively. D. Andrews and A. Caldera Sánchez, *Drivers of Homeownership Rates in Selected OECD Countries*, OECD Economics Department Working Paper No. 849 (Paris, OECD Publishing, 2011), p. 9.

[14] ECE, *Policy Framework for Sustainable Real Estate Markets: Principles and guidance for the development of a country's real estate sector*, Geneva, 2010 (ECE/HBP/147).

[15] Manuel B. Aalbers, "The Financialization of Home and the Mortgage Market Crisis", *Competition and Change*, vol. 12, No. 2 (June 2008), p. 148.

[16] World Bank, *Housing Finance Policy in Emerging Markets*, Loïc Chiquier and Michael Lea, eds., (Washington, D.C., 2009), p. xxxiv.

[17] UN-Habitat, *Financing Urban Shelter: Global Report on Human Settlements 2005* (Earthscan, 2005), p. 1.

dispersion on social stratification and inequality, and the uneven spatial impact of these processes within cities, regions and globally.[18]

13. The affordability crisis was compounded by the erosion, neglect and liberalization of non-market mechanisms for allocating housing resources. Even countries with a long tradition of broad-based social rental housing have redefined their systems to promote ownership, "free market" principles and competition policies. Thus, there has been a significant reduction in the construction of adequate housing for the poor and most vulnerable groups along with decreasing national budgets and available public funds. In the United States, the budget of the Department of Housing and Urban Development was cut from $83 billion in 1978 to $18 billion in 1983 and between 1996 and 2001, no funding was allocated to public housing construction.[19] The constant reduction in public housing has resulted in long waiting lists, keeping a large number of people in inadequate housing conditions (A/HRC/13/20/Add.4, para. 21; see also A/HRC/10/7). Even in the former Soviet countries, which did not experience a shortage of housing in the short term (following mass privatization), low-income households were soon faced with a huge affordability problem.[20]

14. With the decline of State investment in the social housing sector and the increasing focus on homeownership — which also led to a shrinking private rental market[21] — access to housing finance became vital for low- income households, who were left with no other option for securing shelter than to embark on credit schemes to purchase homes, if, where and when those homes and credit became available and under the conditions defined by real estate and financial markets.

15. Although most countries apply a myriad of housing finance policies and programmes, the Special Rapporteur has decided to focus her report on the three policies that have been implemented most prevalently as a means of facilitating access of the poorest and most disadvantaged to housing finance for homeownership: the increase in the scale of mortgage lending for low-income borrowers; the provision of capital subsidies to low-income groups as a means of supporting entry of households into housing credit markets; and microfinance for housing construction or improvements. The present report analyses these approaches and assesses their impact on the right to adequate housing of those living in poverty.

II. The human rights framework for housing finance

16. Housing finance policies directly affect the affordability component of the right to adequate housing (article 11, paragraph 1, of the International Covenant on Economic, Social and Cultural Rights). States should establish laws, policies and

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[18] Ray Forrest, "Globalization and the Housing Asset Rich: Geographies, Demographies and Policy Convoys", *Global Social Policy*, vol. 8, No. 2 (August 2008), pp. 167 and 178-179; Jian-Ping Ye, Jia-Ning Song and Chen-Guang Tian, "An Analysis of Housing Policy During Economic Transition in China", *International Journal of Housing Policy*, vol. 10, No. 3 (September 2010), p. 273.

[19] Western Regional Advocacy Project, *2012 HUD Budget Fact Sheet*, 2011.

[20] Reply of Slovakia to the questionnaire.

[21] UN-Habitat, *A Policy Guide to Rental Housing in Developing Countries*, Quick Policy Guide Series — Volume 1 (Nairobi, 2011); UN-Habitat, *Rental Housing: An essential option for the urban poor in developing countries* (Nairobi, 2003).

programmes to ensure that the percentage of housing-related costs is commensurate with income levels and that the attainment and satisfaction of other basic needs is not threatened or compromised. States are also required constantly to monitor the impact of their housing policies on the realization of the right to adequate housing and to control unreasonable increases in housing costs.[22]

17. When designing, implementing and monitoring housing policies, States must ensure that they not only promote access to affordable housing, but also access to housing that is habitable, accessible and adequately located, and ensure the availability of services (such as health, education and welfare), means of livelihood, building materials, facilities and infrastructure, and security of tenure. States must ensure that housing policies are non-discriminatory and do not increase existing inequalities. When designing housing finance policies, States must pay particular attention to the rights of the poor and disadvantaged. Policies and legislation should be designed to bridge inequality gaps and to ensure access to affordable housing for the poor and marginalized and not benefit already advantaged social groups at the expense of others.[23]

18. The obligation to ensure the realization of the right to adequate housing does not oblige Governments to provide publicly built housing for all. Although the Committee on Economic, Social and Cultural Rights expressed the view that in some cases the State is obliged to provide social housing or low-rental units for low-income households,[24] States are encouraged to employ a variety of housing policies,[25] provided that "measures being taken are sufficient to realize the right for every individual in the shortest possible time in accordance with the maximum of available resources".[26]

19. States are required constantly to monitor housing policies and assess their compatibility with the progressive realization of the right to adequate housing. When a policy proves detrimental to the enjoyment of the right to adequate housing (for example, when housing policies lead to land speculation, increase of homelessness, discrimination or affordability crises),[27] States should adjust and rectify their policies and programmes accordingly.[28]

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[22] Committee on Economic, Social and Cultural Rights, general comment No. 4 (1991) on the right to adequate housing, para 10, which can also be seen as authoritative guidance for the interpretation of the right to an adequate standard of living referred to in other international human rights instruments such as the Universal Declaration of Human Rights.

[23] Ibid., para 11.

[24] For example, in the Committee's concluding observations on India (E/C.12/IND/CO/5), paras. 30 and 70; Lithuania (E/C.12/1/Add.96), para. 47; Kenya (E/C.12/KEN/CO/1), para. 30; the United Kingdom (E/C.12/GBR/CO/5), para. 29; and France (E/C.12/FRA/CO/3), para. 44.

[25] Concluding observations on Cyprus (E/C.12/CYP/CO/5), para 21 and Nicaragua (E/C.12/NIC/CO/4), paras. 24-25.

[26] General comment No. 4 (1991), para. 14.

[27] See the concluding observations on Argentina (E/C.12/ARG/CO/3).

[28] General comment No. 4 (1991), para 11.

III. Prevalent housing finance policies and their impact on the right to adequate housing of people living in poverty

A. Mortgage markets

20. In recent years market-based housing finance has spread throughout the world at an unprecedented rate. In the United States, European countries, Australia and Japan residential mortgage markets represent between 50 and 100 per cent of gross domestic product (GDP). Several countries experienced strong growth in mortgage debt in the last decade before the crisis, including Australia, Ireland, Spain, Sweden and the United States. By 2009, the ratio of mortgage debt to GDP had reached more than 100 per cent in Denmark and the Netherlands.[29] Mortgage markets have also been developing in emerging markets. For example, the Chinese mortgage market, which started only in the early 1990s, has been growing at more than 40 per cent annually since 2000, reaching 11 per cent of GDP in less than 10 years[30] to become the largest mortgage market in Asia. Similarly, the Indian market has been growing at 30 per cent per year.[31]

21. Mortgage lending remains low throughout most transition economies and developing countries, despite intensive efforts to develop mortgage- based finance systems.[32] In 2010, only 5 per cent of the population of Eastern Europe reported having a mortgage,[33] and mortgage lending is negligible (less than 5 per cent) in most of sub-Saharan Africa.[34]

22. Market-based housing finance inevitably targets the more affluent segments of society, which have the necessary capital to take on the initial housing loan and generate profit to lenders through the payment of interest. Mortgage finance has been traditionally considered unattainable for the poor owing to issues such as lack of title, informal and illegal settlements, restrictive zoning and occupancy regulations, low and erratic income and large-scale employment in the informal sector. Banks traditionally focus their marketing on the upper-income groups, tending to adopt an over-collateralized approach to lending (multiple guarantors, low loan-to-value ratio, etc.), which inherently excludes low-income groups. Mortgage markets, therefore, in effect discriminate against low-income borrowers. Research commissioned by the FinMark Trust in 12 countries across Africa found that less than 10 per cent of local populations are eligible for mortgage finance. In Eastern European countries in transition, recent estimates by UN-Habitat indicate that rapid house price increases coupled with high unemployment and higher interest rates on mortgages have excluded more than 80 per cent of new households from the new housing construction market.[35]

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[29] International Monetary Fund (IMF), *Global Financial Stability Report: Durable Financial Stability: Getting There from Here* (Washington, D.C., 2011), p. 133-134.

[30] Stephens, p. 2975.

[31] World Bank, *Housing Finance Policy in Emerging Markets*, p. xxxi.

[32] Although some transition countries such as Hungary, the Baltic countries and Kazakhstan have seen growth of more than 20 per cent per year. IMF, *Global Financial Stability Report*, p. 134.

[33] European Bank for Reconstruction and Development, *Transition Report 2011: Crisis and Transition: The People's Perspective*, p. 56.

[34] With the exceptions of South Africa, where mortgage debt accounts for just over 40 per cent of GDP, and Namibia, with about 20 per cent.

[35] UN-Habitat, *Affordable Land and Housing in Europe and North America*, p. 48.

23. With the growing understanding that mortgage finance remains unaffordable for the lower- (and often middle-) income groups in both developed and developing countries, during the past two decades new mortgage products were designed specifically for borrowers with low income and/or a poor credit history, who could not be eligible for regular mortgage finance. The development of this new mortgage finance "market segment" increased enormously during the 1990s and even more so during the 2000s.[36]

24. Credit was increasingly awarded to households that, in normal circumstances, would not be eligible for loans, generating what is known as "sub-prime" loans. Although these lending policies were intended to enable access to housing finance for low-income households previously excluded from the mortgage markets, they are still in effect extremely discriminatory with respect to the poor. Mortgage lenders classify loan applicants according to the risks that they pose to both lenders and investors. Credit scoring facilitates risk-based pricing by allowing lenders to charge higher interest rates for borrowers with low scores (bad risks) and lower interest rates for borrowers with high scores (good risks). Lenders became more willing to issue credit at a relatively high price to higher-risk borrowers. In the United States, a typical sub-prime borrower would pay $5,222 more during the first four years of a $166,000 mortgage than would a similar borrower with a normal mortgage (see A/HRC/10/7).

25. Predatory lending has also impacted disproportionally on the most vulnerable. Predatory lending is a form of price discrimination that targets the same groups that were once excluded from mortgage markets, offering them loans that are more expensive than their risk profile would warrant, overpriced mortgage insurance, and abusive or unnecessary provisions including balloon payments, large prepayment penalties and underwriting that ignores a borrower's ability to repay.[37]

26. Once overtly excluded from accessing mortgage loans, the poor became the target of these more subtle discriminatory mechanisms. High- interest loans led to ever-increasing household indebtedness and economic insecurity and poor households were forced to reduce expenditure on other basic needs in order to meet their housing debt.

27. The adverse effects of housing credit growth on affordability have also been visible at the macroeconomic scale. Wider access to mortgage loans resulted in higher house prices. In Spain, between 1995 and 2005 housing prices rose 105 per cent, a result of cheap debt and access to global capital for credit (A/HRC/7/16/Add.2, para. 44). A recent IMF analysis confirms the strong positive relationship between house price movements and household credit growth. On average, a 10 per cent increase in household credit is associated with an increase in housing prices of about 6 per cent.[38]

28. Increasing dependence on mortgage credit, private institutions and connection to broader developments in the global capital markets has overexposed national housing systems to the turbulence of global finance, raising levels of debt and concentrating risks among individual households. Countries that adopted a strongly

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[36] World Bank, *Thirty Years of World Bank Shelter Lending: What Have We Learned?*, Robert M. Buckley and Jerry Kalarickal, eds. (Washington, D.C., 2006).

[37] Aalbers, p. 159.

[38] IMF, p. 134.

open system of mortgages, based on sub-prime loans, easily granted credit and the financialization of mortgages, have seen a serious crisis since 2008, when the financial crisis in the United States spread internationally. In previous reports (A/HRC/7/16/Add.2, A/HRC/10/7, A/HRC/13/20/Add.4 and A/HRC/16/42/Add.3), the Special Rapporteur analysed at length the impact of mortgage market liberalization and the sub-prime mortgage system on the economic and financial crises in various regions and the subsequent devastating impacts of the crises on the most poor and marginalized.

29. The discrepancy between income levels and soaring housing and rental prices coupled with unemployment led to increased payment default, foreclosures and homelessness. These processes were exacerbated by the adoption of legal and institutional adjustments aimed at facilitating foreclosure, which have been promoted in recent years as "imperatives for developing a housing finance system".[39] The paradigm that promoted homeownership as the most secure form of tenure has been proven false, as increasing foreclosure rates have been one of the main results of the recent crises.[40] In Spain, more than 350,000 foreclosures have occurred since 2007 and in 2011, about 212 foreclosures and 159 evictions occurred daily.[41] The crisis has disproportionately affected the poorest and most vulnerable, who were the "last" to join the mortgage markets and the first to suffer the consequences of the crises owing to their low resilience to economic shocks and low repayment abilities.[42] Recent research indicates that the majority (70 per cent) of defaults in Spain are related to the unemployment crisis and that 35 per cent of the foreclosed properties belong to migrants.[43]

30. The effect of the housing crisis has been less detrimental for emerging economies where, owing to their structure and performance, mortgage markets remain smaller, more conservative and less connected to capital market flows. Emerging mortgage markets that have made heaviest use of global securitization (e.g. the Russian Federation, Kazakhstan and the Republic of Korea) were most affected.[44] In Kazakhstan in 2010, more than 40,000 borrowers were waiting for their apartments to be finished while construction companies went bankrupt (see A/HRC/16/42/Add.3).

31. In Eastern Europe, an aggravating factor has been the high rate of foreign currency-denomination loans in some of the countries in the region. In 2010, 42 per cent of mortgages in emerging Europe were denominated in a foreign currency.[45] By the time the economic crisis hit, some two thirds of all mortgage loans in Hungary were in Swiss francs. With the onset of the crises, the value of the franc escalated against the Eastern European currencies. Homeowners suddenly found their

[39] World Bank, *Housing Finance Policy in Emerging Markets*, pp. 94-95.

[40] According to the RealtyTrac, a company that maintains a database of foreclosures, in the third quarter of 2009 foreclosures were filed for 1 in every 136 housing units in the United States.

[41] A. Colau and A. Alemany, *Vidas Hipotecadas* (Barcelona, Angle Editorial-Cuadrilátero Libros, 2012), pp. 21-22.

[42] Committee on Economic, Social and Cultural Rights, concluding observations on Spain (E/C.12/ESP/CO/5), para. 21; Amnesty International, *Spain: Submission to the UN Committee on Economic, Social and Cultural Rights, 48th session, May 2012*, AI index EUR 41/005/2012 (London, 2012).

[43] Colau and Alemany, pp. 30 and 237.

[44] World Bank, *Housing Finance Policy in Emerging Markets*, p. xxxvii.

[45] European Bank for Reconstruction and Development, p. 56.

repayments skyrocketing and in some cases saw the amount of their loans outstrip the value of their houses.

32. Following the sub-prime crisis, the supply of housing and household mobility have been significantly curtailed by a shortage of long-term credit for real estate development on the supply side (in both the rental and ownership sectors) as well as by increased rationing of mortgages on the demand side. In response to the crises, Governments have introduced regulations for responsible lending and financial institutions have tightened their mortgage conditions, again placing mortgage finance out of reach for low-income groups. Government responses to the crisis have concentrated on adjusting demand-side policies, tightening mortgage market conditions and adopting regulations in Norway, Sweden, Israel, Canada and the Netherlands; abolishing interest tax deductions in Poland, Spain and China; and introducing demand-side subsidies to assist mortgage lenders and prevent arrears in Spain and Chile.[46] The crisis has not led to a shift to supply-side non-market housing policies, and social housing investment remains low in most countries. Recovery measures based on austerity (i.e., cuts in public spending) led in some instances to additional curtailment of social housing programmes, as was the case of OEK (Workers' Housing Organization) in Greece,[47] while huge public resources were allocated to "bail-outs" of financial institutions. This has resulted in increased homelessness, indebtedness of families and worsening housing conditions.

B. Demand subsidies

33. A major component of the shift from supply-side to demand-side housing policies has been the promotion of demand subsidies as a means to enlarge the market for privately produced residential units, mobilizing public resources and directing them to potential buyers with the idea of "reducing Government intervention". The rationale behind demand-subsidy programmes is that low-income households will be able to finance their housing through the free market, with their own savings, assisted by a down-payment subsidy or a subsidized loan provided by the State. The main types of household demand subsidies used are: (a) direct payments, either up front (to lower the amount of the loan, the closing costs, the down payment or the insurance premium, or in the form of a capital grant) or on a monthly basis; (b) subsidies tied to savings programmes; (c) interest-rate or interest-payment subsidies; (d) tax subsidies tied to mortgage payments or real estate taxation.[48]

34. Most countries employ a combination of these demand subsidies. However, capital-grant subsidies have been popular mainly in Latin America and are relatively rare in developed economies.[49] In Europe, the United States, Canada and Australia demand subsidy programmes have largely taken the form of tax exemptions, interest

[46] IMF, pp. 115-116.

[47] Reply of Greece to the questionnaire.

[48] There is a critical distinction between subsidies that work through the financial system and those that do not, e.g. the construction and operation of rental housing or the payment of housing allowances to help renters meet their rent. This report focuses on demand subsidies aimed at increasing homeownership through the financial market. UN-Habitat, *Guide to Preparing a Housing Finance Strategy* (Nairobi, 2009), p. 45.

[49] Council of Europe, *Housing Policy and Vulnerable Social Groups* (Strasbourg, 2008), p. 31.

rate subsidies or bonuses through savings accounts.[50] Mortgage interest tax relief existed, for example, in Ireland, the Netherlands, Germany, the United States, the United Kingdom, China, Slovakia, Hungary, the Russian Federation, Croatia and the Czech Republic.[51] France promotes a mixture of subsidies, including subsidized savings schemes for newly built and renovated properties and a means-tested interest-free loan granted to first-time buyers.[52]

35. One of the most common housing subsidies in European countries (Germany and France) has been the contract-savings scheme. Savers who fulfil their contracts are eligible for mortgage loans at an interest rate that is below the market rate. Since the saving capacity of low-income groups is very limited, they are generally prevented from enjoying the advantages of this model.[53] The favourable tax treatment of households that are related to homeownership, in the form of tax relief or tax credit for the mortgage repayment, tax advantages related to capital gains for owner-occupiers and reduced property tax or imputed tax, are also used in developed countries, emerging markets and countries in transition and favour the better-off households that can afford a mortgage loan.[54] Mortgage interest-rate subsidies that reduce the interest paid by the borrower have been implemented in Denmark, the United States, Norway and Greece and in Mexico, Portugal, Croatia and Indonesia.[55]

36. Demand subsidies linked to mortgage finance or savings usually do not target the poor and in effect benefit the better-off (middle- and even upper-middle-income households). Income tax deductions of interest payments or a broad-based interest rate subsidy for mortgage loans tend to be regressive, as they increase with the amount of the loan and benefit those who can afford larger loans more than those with smaller loans. In the Philippines, interest rate subsidies account for 90 per cent of the value of housing subsidies; however, 77 per cent of the country's population cannot afford a formal-sector loan even at subsidized interest rates.[56] Part of these subsidies may also leak out to benefit others in the housing systems and raise the value of existing dwellings and land.[57]

37. Although the rationale for the implementation of subsidized mortgage markets is supposedly to reduce State intervention in the housing sector, support for savings banks, interest-rate subsidies and tax allowances mobilize a large amount of public money. The Government is committed to long-term subsidy payments, which are hard to control during the contract period. For example, in Spain and Hungary, tax-exemption schemes were recently cancelled owing to serious fiscal problems. The Special Rapporteur believes that a State's sole reliance on mortgage subsidies may be considered incompatible with its obligation to employ the maximum available

[50] Harold M. Katsura and Clare T. Romanik, *Ensuring Access to Essential Services: Demand Side Housing Subsidies*, Social Protection Discussion Paper Series No. 0232 (Washington, D.C., World Bank, December 2002), p. 6; replies of Canada and Australia to the questionnaire.

[51] UN-Habitat, *Financing Urban Shelter*, p. 63.

[52] Reply of France to the questionnaire.

[53] World Bank, *Housing Finance Policy in Emerging Markets*.

[54] Council of Europe, p. 38.

[55] Replies of Croatia, Indonesia, Mexico and Portugal to the questionnaire.

[56] UN-Habitat, *The Role of Government in the Housing Market: The Experiences from Asia* (Nairobi, 2008), pp. 39-40.

[57] J. Pollard, "Soutenir le marché: les nouveaux instruments de la politique du logement" in *Sociologie du travail*, vol. 52, No. 3 (July-September 2010), p. 333.

resources to promote the right to adequate housing without discrimination. This is particularly the case when States devote the majority of their budgets to these policies while at the same time dismantling or failing to promote social housing programmes or other alternatives that specifically target the poor.

38. The capital grant-subsidy approach has been promoted to target low-income households in particular and the Chilean experience has been considered the model that inspired other countries.[58] The model emphasizes: (a) the shift of responsibility for housing provision from the Government to the private sector; (b) provision of one-time grants for home purchase while curtailing all indirect subsidies; and (c) transparent qualifying mechanisms based on household income and a savings contribution. Programmes aim to increase housing affordability by offering a cash subsidy to cover part of the purchase price of a formally constructed dwelling offered for sale in the market by private companies. Subsidies may be combined with mortgage or microfinance loans and/or household savings. Capital grants aim to target the lowest-income households and are perceived to encourage their integration within conventional housing markets, leading to financial market expansion.[59]

39. The Chilean model has been praised as a best practice for its transparency, the scale of its shift of housing provision to private market providers (which were seen as more efficient and effective than Government in addressing the diversity of housing demand) and its targeting of the poor.[60] The model has been widely replicated in Latin America (Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and Venezuela (Bolivarian Republic of)).[61] Outside Latin America, the capital-grant approach has been implemented on a large scale in South Africa since 1994.[62]

40. In the absence of State land planning, a large amount of subsidies available in the housing market has led to significant increases in land and housing prices, a general problem of affordability for low-income households and long waiting lists.[63]

41. Problems also soon emerged with regard to the location of these programmes. In Chile, planning regulations were loosened and city limits expanded under the premise that a freely operating land market would automatically contribute to providing access to adequate housing through housing markets. Unlike in the case of

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[58] A. Gilbert, "Power, Ideology and the Washington Consensus: The Development and Spread of Chilean Housing Policy", *Housing Studies*, vol. 17, No. 2 (2002), pp. 305-324.

[59] Diana Mitlin, "New Directions in Housing Policy", in *Global Urban Poverty: Setting the Agenda*, Allison M. Garland, Mejgan Massoumi and Blair A. Ruble, eds. (Washington, D.C., Woodrow Wilson International Center for Scholars, 2007), pp. 151 and 163.

[60] UN-Habitat, *Affordable Land and Housing in Latin America and the Caribbean* (Nairobi, 2011), p. 57.

[61] Replies of El Salvador, Guatemala, Mexico and Venezuela (Bolivarian Republic of) to the questionnaire. Some 20 per cent of the Inter-American Development Bank lending for shelter has been allocated to capital-subsidy programmes. Inter-American Development Bank, *Sharpening the Bank's Capacity to Support the Housing Sector in Latin America and the Caribbean: Background Paper for the Implementation of the Social Development Strategy* (Washington, D.C., 2006).

[62] South Africa Financial and Fiscal Commission, *Building an Inclusionary Housing Market: Shifting the Paradigm for Housing Delivery in South Africa*, January 2012.

[63] In Chile, in 1998 the estimated waiting time for a housing subsidy was over 20 years. UN-Habitat, *Affordable Land and Housing in Latin America and the Caribbean*, p. 55.

housing markets for higher-income families, in which suppliers have to be sensitive to demand requirements and therefore to the trilogy of product-price-location as they operate in a competitive context, operators that supply social housing have a captive demand, particularly when it is fully subsidized. In a context of housing deficit, beneficiaries of housing subsidies will simply "buy" what is available at the moment. Suppliers of social housing can therefore be not very sensitive to, or simply ignore, demand preferences, as there is no competition.[64]

42. Subsidized housing developments have been built primarily in the urban periphery where land costs are lowest. In Chile, the majority of housing built through the subsidy scheme between 1978 and 2000 has been concentrated in peripheral locations, lacking enough or adequate infrastructure, schools, health facilities and employment opportunities. Poor public transport and road quality further impairs residents' ability to access services and employment.[65] Subsidy programmes in South Africa, Mexico and Brazil have also been criticized for replacing widespread informal housing with low-standard and stigmatized housing typologies concentrating low-income families.[66] The result is greater urban and social segregation, an increase in the disparity in access to urban services, a worsening of local living conditions, increased environmental damage and urban security problems.

43. The housing habitability aspect has also been neglected in these programmes. The homes that have been produced have often been not only poorly located, but also very small or of very poor quality and with restricted chances of upgrading.[67] Some countries have attempted to regulate the quality standards, but this has often resulted in a substantive increase in administrative costs owing to the institutional capacity required for monitoring, and an increased backlog in housing delivery.[68]

44. Habitability, location and accessibility problems have led South Africa to alter its subsidy programme and increase Government intervention. Under the Breaking New Ground subsidy implemented beginning in 2004, supply-side components were included in an attempt to mitigate the adverse impact on subsidy housing habitability and location that unfolded during the first stage; in 2005 the Government announced that land would be funded outside the housing subsidy amount, and then in 2007 that services would also be additional, funded directly by municipalities.[69]

45. Originally designed to target the poorest and most disadvantaged, capital-grant programmes have had difficulties reaching low-income households, mainly owing to

[64] Pablo Trivelly and Company, Ltd., "Urban Structure, Land Markets and Social Housing in Santiago, Chile", January 2010.

[65] Ibid. See also Alfredo Rodríguez and Ana Sugranyes, eds., *Los Con Techo: Un Desafío para la Política de Vivienda Social* (Santiago, Ediciones SUR, 2005).

[66] Mariana de Azevedo Barreto Fix, "Financeirização e transformações recentes do circuito imobiluário no Brasil", doctoral thesis presented at the Instituto de Economia da UNICAMP, Campinas, Brazil, 2011; UN-Habitat, *Housing Finance Mechanisms in Mexico* (Nairobi, 2011); Fernando Jiménez-Cavieres, "Chilean Housing Policy: A Case of Social and Spatial Exclusion?", doctoral dissertation, Technical University of Berlin, 2006.

[67] For example, the basic State house in Santiago in 1990 was only 33-34 m^2 in size. While the average size rose during the 1990s, in 1998 each family had only 9.3 m^2 per occupant. In South Africa, the average floor space was initially only 25 m^2 and the houses had no partitions. Gilbert, p. 29.

[68] Reply by the Centre for Affordable Housing Finance in Africa to the questionnaire.

[69] In addition, a savings component was added to the subsidy and the qualifying borrower was required to make a contribution or deposit.

the inability of low-income families to assemble significant down payments or to meet the monthly payments of market-rate loans.[70] In some cases, the subsidy was set so low as to prevent, a priori, the possibility of purchasing a housing unit without additional substantial credit or savings.[71] Even when able to meet the credit or savings requirement, many of the new owners could not afford to maintain the accommodation or pay the charges for their water and electricity, and were forced to sell their homes.[72] Capital grants can use means testing to determine eligibility; however, targeting mechanisms have proven very complex and costly, as they require accurate and updated information on income and household consumption, which is often in poor supply in developing countries owing to, inter alia, high levels of informal employment. Because reliable income and asset data are rare, some countries rely on proxy measures of income to determine eligibility and benefit levels, such as the ownership of a car or the volume of electricity consumed by a household. However, even the best proxy systems can suffer from substantial exclusion and inclusion errors.[73]

46. Attempting to complement resources, some States have promoted the involvement of both private banks and non-governmental organizations (NGOs) in supplying low-income households with microcredit, in addition to the State subsidy. These programmes act as institutional and financial intermediaries between the poor and the State, enabling the poor to "bridge the finance gap" in order to be eligible for the subsidy. However, research indicates that the combination of housing microfinance and subsidies has not been successful. Problems emerge, particularly in instances where the same microfinance institution manages both the need-based subsidy and the demand-driven loan, as the amount of the subsidy is inversely related to the amount of the credit.[74]

47. In some cases, administrative barriers or difficult requirements prevent low-income households from benefiting from subsidies. Enrolment remains low when people find it difficult to travel to apply to the programme because of time constraints, transportation expenses or disabilities. Having to produce expensive documentation of their eligibility for the programme, such as birth certificates or proof of residency, also increases their transaction costs and, thus, restricts enrolment.[75] Inefficient land registration systems in many developing countries have sometimes created severe backlogs in title registration, circumventing the security of tenure of subsidy beneficiaries.[76]

48. Despite substantial Government budgetary investment and specific targeting of low-income households, capital-grant subsidies have partially promoted only the affordability aspect of the right to adequate housing (by substantially reducing housing deficits in some developing countries), at the expense of the broader aspects of habitability, location, availability of services and infrastructure and

[70] UN-Habitat, *Financing Urban Shelter*, p. 60.

[71] A mandatory savings component also limited the reach of Ecuador's subsidy, which required a contribution of about 30 per cent, between savings and fees, from the household. UN-Habitat, *Affordable Land and Housing in Latin America and the Caribbean*, p. 55.

[72] Gilbert, pp. 31-32.

[73] World Bank, *Thirty Years of World Bank Shelter Lending*, p. 55; Council of Europe, p. 50.

[74] World Bank, *Housing Finance Policy in Emerging Markets*, pp. 405-406; UN-Habitat, *Financing Urban Shelter*, p. 95.

[75] See Katsura and Romanik.

[76] See South Africa Financial and Fiscal Commission.

non-discrimination, which have been largely ignored. As one commentator observed, the new stock of subsidized housing often created a greater housing problem: "the problem of those 'with roofs'".[77]

C. Housing microfinance

49. The majority of the urban poor live in unplanned and unserviced urban settlements and self-produce their habitat incrementally, mobilizing their own material and financial resources. In 2005, over one third (37 per cent) of the urban population in developing countries lived in slums and UN-Habitat estimates that by 2020 the world slum population will reach almost 1 billion.[78]

50. Until the 1980s, slum dwellers and the urban poor had not been a market for financial services.[79] As previously mentioned, the reasons were the inability of low- and even middle-income households to afford housing finance debt; the incompatibility of formal finance loan requirements (such as complex collateral and extended repayment capabilities) with the characteristics of low-income households (low level and irregularity of income and lack of security of tenure); and the fact that financial institutions perceived few incentives to lend to the poor, who usually "consume" small loan amounts and entail high transaction costs. As a result, low- and even middle-income households adopted "informal" finance strategies based on individual savings, family loans and remittances, or moneylenders or pawnbrokers.[80]

51. However, in the 1980s a new finance paradigm emerged, one that appeared to be able to address poverty through the expansion of small, informal-sector income-generating credit: microfinance. Private financial investors became convinced of the profitability of microfinance and came to regard the poor as "bankable".[81] The result has been a dramatic rise since then in the flow of private investment capital (supported by donors, multilateral banks and international organizations) into the microfinance sector and, more recently, into housing finance services adapted to support incremental building processes.[82] The growing commercial presence of major Western banking groups in developing countries and their interest in microfinance (including for housing) has been based on the idea that the "bottom of the pyramid" represents a large untapped market.[83]

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[77] See Rodriguez and Sugranyes.

[78] UN-Habitat, *State of the World's Cities 2010/2011: Cities for All: Bridging the Urban Divide* (Nairobi, 2010), p. xii.

[79] UN-Habitat, *Financing Urban Shelter*.

[80] UN-Habitat, *Housing for All: The Challenges of Affordability, Accessibility and Sustainability: The Experiences and Instruments from the Developing and Developed Worlds* (Nairobi 2008), p. 11; UN-Habitat, *Financing Urban Shelter*, pp. 99-100.

[81] Don Johnston, Jr. and Jonathan Morduch, "The Unbanked: Evidence from Indonesia", *The World Bank Economic Review*, vol. 22, No. 3 (2008), p. 517.

[82] See, for example, the UN-Habitat Slum Upgrading Facility and the Shelter Finance for the Poor Initiative of Cities Alliance; Bruce Ferguson and Peer Smets, "Finance for Incremental Housing: Current Status and Prospects for Expansion", *Habitat International*, vol. 34 (2010), pp. 288-289; World Bank, *Housing Finance Policy in Emerging Markets*, p. 395.

[83] C. K. Prahalad and S. L. Hart, "The Fortune at the Bottom of the Pyramid", *Strategy and Business*, Issue 26 (First quarter 2002), p. 1.

52. In the past 10 years,[84] a growing number of housing microfinance programmes have been initiated, offering loans to homeowners ranging from $300 to $5,000,[85] frequently with repeat lending opportunities and repayment terms of 1-15 years. In comparison with enterprise microfinance, housing microfinance loans are generally larger and given for longer periods. Housing microfinance loans are also much smaller than mortgage loans, typically granted for shorter terms, and their target population is that not served by formal private or public financial institutions.[86] Owing to their limited scope, housing microfinance loans are used mainly to finance progressive improvements to housing (e.g. building sanitary amenities) and expansions to an existing dwelling, or for the incremental construction of a home.[87]

53. Housing microfinance is offered by a wide variety of institutions including microfinance agencies, such as Grameen Bank and affiliates of the Accion organization; banks and commercial institutions, such as HDFC Bank in India and the CEMEX company in Mexico (the Patrimonio Hoy programme); and intergovernmental organizations and NGOs specializing in shelter provision, such as the Rural Housing Loan Fund in South Africa and Habitat for Humanity.[88] A distinction can be made between financial institutions offering micro enterprise loans and institutions whose main purpose is improving the shelter situation of the poor, which may or may not be financial institutions.[89]

54. As is the case with microfinance agencies, most housing microfinance initiatives originate in developing countries and emerging markets. Latin America has the largest housing microfinance portfolio.[90] Housing microfinance is also growing in Asia and, to a lesser extent, in Africa.[91] Examples of lenders include the Kuyasa Fund (South Africa), the Jamii Bora Trust (Kenya), KixiCasa (Angola), PRIDE (United Republic of Tanzania), BRI (Indonesia) and CARD (Philippines).[92] The size of some housing microfinance programmes may be considerable; Grameen

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[84] Although microfinance institutions such as Grameen Bank have had housing loan programmes since the 1980s, housing microfinance began to attract significant attention only in the last 10 years.

[85] Some housing microfinance institutions offer loans up to $8,000. UN-Habitat, *Housing for All*, p. 18.

[86] Center for Urban Development Studies, Harvard University Graduate School of Design, *Housing Microfinance Initiatives: Synthesis and Regional Summary: Asia, Latin America and Sub-Saharan Africa with Selected Case Studies*, May 2000.

[87] World Bank, *Housing Finance Policy in Emerging Markets*, p. 399; Bruce Ferguson, "Housing Microfinance: A Key to Improving Habitat and the Sustainability of Microfinance Institutions", *Small Enterprise Development*, vol. 14, No. 1 (March 2003), p. 21.

[88] UN-Habitat, *Financing Urban Shelter*, pp. 106-112; *Housing Finance in Emerging Markets: Connecting Low-Income Groups to Markets*, Doris Köhn and J.D. von Pischke, eds. (Berlin, Springer, 2011), pp. 33-35.

[89] UN-Habitat, *Housing for All*, pp. 12-13; UN-Habitat, *Financing Urban Shelter*, pp. 103-104.

[90] Such as MiBanco in Peru, BancoSol in the Plurinational State of Bolivia, Banco Solidario in Ecuador, Banco Ademi in the Dominican Republic, Calpia in Honduras and Genesis Empresarial in Guatemala. UN-Habitat, *Housing for All*, p. 22; UN-Habitat, *Financing Urban Shelter*, p. 106.

[91] FinMark Trust, *Scoping the Demand for Housing Microfinance in Africa: Status, Opportunities and Challenges* (2009).

[92] Annika Nilsson, "Overview of Financial Systems for Slum Upgrading and Housing", *Housing Finance International*, vol. 23, No. 2 (December 2008), pp. 20-21; S. Merill and N. Mesarina, "Expanding Microfinance for Housing", *Housing Finance International*, vol. 21, No. 2 (December 2006), p. 21.

Bank, for example, has provided more than 650,000 housing loans.[93] However, housing microfinance portfolios worldwide remain very small relative to GDP and the overall microfinance activity.[94] Housing microfinance is still heavily directed towards existing business loan clients of microfinance institutions and in typical microfinance schemes, the housing portfolio share ranges between 4 per cent and 8 per cent.

55. Housing microfinance institutions employ diversified and more relaxed collateral strategies compared with traditional mortgage collateral, including co-signers, assignment of future income, payroll deduction, other financial assets such as life insurance, and "social collateral" (borrowers' reputations, or the social networks to which they belong).[95] Some microfinance agencies seek to minimize the need for collateral by using existing client history.[96] Many home microfinance agencies, particularly in Asia and Africa, have savings requirements, which serve both as an assessment of the borrower's repayment capacity and as a means to acquire funds.[97]

56. Although microfinance agencies' interest rates are typically lower than those of informal moneylenders, they are much higher than those charged by formal financial institutions and have much shorter maturities. In most cases, the interest rates range between 20 per cent and 50 per cent.[98] For example, MiBanco in Peru charges a 37 per cent annual rate[99] and Compartamosbanco in Mexico charges almost 70 per cent interest on its housing microfinance programme.[100] The poorer the client, the more likely the housing microfinance agency will attempt to manage default risk by reducing the time over which the client must repay the loan, increasing the interest rate and reducing the size of the loan.[101] In some cases, the small loan amount is not sufficient and needs to be supplemented by additional borrowing from external sources, which carry very high interest rates and expose the household to increased risk. The use of floating rate interest also leads to increased interest over the repayment period, sometimes up to double the original rate.[102] High interest rates increase clients' indebtedness and reinforce a vicious cycle of poverty and the likelihood of default.[103] In some cases, long-held family assets (such as equipment or land) need to be sold, or other income flows (remittances, pensions) to be diverted into repayment. These "fallback" strategies account for the generally high repayment rates of housing microfinance, but reduce

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[93] See www.grameen-info.org/index.php?option=com_content&task=view&id=1122&Itemid=973 (accessed 19 July 2012).

[94] World Bank, *Housing Finance Policy in Emerging Markets*, p. 398.

[95] UN-Habitat, *Housing for All*, p. 20; Sally R. Merrill, *Microfinance for Housing: Assisting the "Bottom Billion" and the "Missing Middle"*, Urban Institute Center on International Development and Governance, IDG Working Paper No. 2009-05, June 2009, p. 4.

[96] UN-Habitat, *Enabling Shelter Strategies: Review of Experience from Two Decades of Implementation* (Nairobi, 2006), p. 91.

[97] UN-Habitat, *Financing Urban Shelter*, p. 114.

[98] UN-Habitat, *Housing for All*, p. 19.

[99] World Bank, *Housing Finance Policy in Emerging Markets*, p. 410.

[100] See www.compartamos.com/.

[101] UN-Habitat, *Housing for All*, pp. 24-25.

[102] P. K. Manoj, "Prospects and Problems of Housing Microfinance in India: Evidence from 'Bhavanashree' Project in Kerala State", *European Journal of Economics, Finance and Administrative Sciences*, Issue 19 (2010), pp. 178 and 190.

[103] UN-Habitat, *Housing for All*, p. 23.

household equity, economic resilience and housing affordability. As is often the case in sub-prime mortgage lending, housing microfinance clients have been penalized for their "low profitability" by being forced to pay higher prices for access to housing finance.

57. The small scale and the nature of most housing microfinance programmes, in particular their focus on profitability, prevent them from addressing the issues of tenure security, location, infrastructure and availability of services. Whereas the provision of financial services for incremental housing construction or improvement constitutes a relatively straightforward, manageable undertaking, participation in the process of acquiring land and delivering infrastructure is legally, financially and politically complex, requiring extensive institutional and financial capacities and legal powers typically available only to national and local Government agencies. The incremental approach may, in some cases, promote the habitability aspect of the right to adequate housing by assisting slum dwellers to improve existing homes, but it does little to promote the broader aspects of tenure, location, availability of services and infrastructure. Whether housing microfinance increases housing affordability is also questionable: housing microfinance borrowers increase their housing expenditure substantially, but even after the improvements their dwellings tend to remain segregated from health and education services and employment opportunities and, without secure tenure, they may eventually find themselves evicted (without compensation or relocation) from their improved homes.

58. There is also growing awareness of the failure of the housing microfinance industry to reach the poorest. Many housing microfinance programmes, being financially oriented, appear to target the higher-income urban poor (i.e., those with incomes above 50 per cent of the national poverty line) and near poor (a household income of up to 120 or 150 per cent of the national poverty line),[104] the "economically active poor", sometimes those with formal employment and often those with diversified household livelihood strategies. The ultra-poor, i.e., those who are below the fifteenth percentile in the income distribution, often dispersed in rural areas which are costly to serve with credit or physical infrastructure, are not addressed by these programmes.[105] The requirement of secure tenure may further define the client group as being the relatively "better off" poor.

59. A more recent form of housing microfinance, developed mainly in Africa and Asia, are community funds. These funds work with group loans and/or savings in order to assist communities to finance land regularization and acquisition, infrastructure and service provision, and home improvements. Community funds provide financial and technical support for the purchase of land parcels and communal infrastructure (roads, drainage, water distribution and connection, etc.). This process typically involves negotiations with other stakeholders such as the original owners of the parcel and Government.[106] Some organizations (e.g. the National Housing Cooperative in Kenya) provide both individual housing microfinance loans and community group loans.[107] International umbrella organizations have been created to enable and assist the operations of local

[104] *Housing Finance in Emerging Markets*, pp. 36-37.

[105] Center for Urban Development Studies, p. 24.

[106] Nilsson, p. 19.

[107] Erlend Sigvaldsen, *Key Issues in Housing Microfinance* (Oslo, Nordic Consulting Group, 2010), pp. 16-17.

community-based organizations such as Slum Dwellers International and the Society for the Promotion of Area Resource Centres in India.[108]

60. Some community funds, such as *Baan Mankong* in Thailand and the Community Mortgage Programme in the Philippines, have demonstrated a great capacity to expand their coverage and to execute complex housing and infrastructure projects that involve national and local Governments, landowners and several communities. The *Baan Mankong* programme, introduced in 2003 by the Government of Thailand and implemented by an independent Government agency, the Community Organizations Development Institute, aimed to improve living conditions for 300,000 families by 2008. Its strategy for delivering low-income housing is to channel funds to community-based organizations that plan and carry out projects themselves.[109] The programme became an exemplar for community-supported slum upgrading, although it has been implemented on a smaller scale than originally envisaged.[110]

61. While such programmes developed in tandem with the evolution of housing microfinance, they have a significantly different approach, emphasizing community ownership and broader aspects of adequate housing such as location, access to infrastructure and services, and security of tenure.[111] Community funds are less finance oriented and therefore interest rates on loans are usually lower than housing microfinance rates and loan periods are often longer, up to 25 years.[112] Community funds require Government budgetary assistance and intense involvement by local and national Government in the planning and execution stages, in order to achieve the necessary scale, sustainability and technical assistance. It is still too early to assess the impact of community funds on the access to adequate housing for the poor, and more systemic and long-term research is required. However, the financial sustainability of community funds has already emerged as a problem. Owing to their large scale and reliance on multi-stakeholders, community funds depend largely on donor financial and technical support, which can prove erratic, and research indicates that community funds suffer from low repayment rates and high arrears. Additional concerns have been raised that the communal loans lead to internal conflicts and power imbalances within the borrower communities, owing to differences in repayment capabilities.

IV. Conclusions and recommendations

62. **Housing policies have increasingly been reduced to housing finance systems. The current predominant paradigm of housing policies holds that housing financial markets, if well designed and regulated, can provide access to adequate housing for all segments of society. Housing finance has also become a**

[108] UN-Habitat, *Financing Urban Shelter*, p. 99.

[109] Ferguson and Smets, p. 293-294; UN-Habitat, *Housing for All*, p. 88-89; S. Boonyabancha, "Baan Mankong: going to scale with 'slum' and squatter upgrading in Thailand", *Environment and Urbanization*, vol. 17, No. 1 (April 2005).

[110] As of January 2011, 1,546 communities and 90,000 households had been involved in *Baan Mankong* projects. UN-Habitat, *Affordable Land and Housing in Asia* (Nairobi, 2011).

[111] UN-Habitat, *Financing Urban Shelter*, p. 120.

[112] In the case of the Community Mortgage Programme in the Philippines.

central pillar of global financial markets, critical to the development of the financial sector at the country and international levels.

63. Three main housing financing mechanisms (sub-prime mortgage loans, demand-side subsidies and housing microfinance) have been promoted to specifically facilitate the access of lower-income households to housing finance, promoting homeownership. These policies have been implemented in the context of a changing role of the State from supplier of affordable housing to enabler of housing and financial markets.

64. Having examined the impact of these policies in various regions of the world, it is the view of the Special Rapporteur that they have largely failed to promote access to adequate housing for the poor. Evidence indicates that housing policies based exclusively on facilitating access to credit for homeownership are incompatible with the full realization of the right to adequate housing of those living in poverty, failing to supply habitable, affordable and well-located housing solutions accessible to the poor.

65. Housing finance policies based on credit are inherently discriminatory against lower-income households, and at their best increase housing affordability for upper- and middle-income groups. Housing finance policies often "redline" the poor, who are required to pay much higher prices for financial services, exposing them to financial risks inherent to global financial markets and indebtedness.

66. At the same time, housing finance policies tend to focus solely on housing affordability while failing to address the broader aspects of the right to adequate housing: location, access to infrastructure and services, habitability and security of tenure.

67. The focus on the financial aspects of housing has led to the conceptualization of housing as an asset and commodity, distributed only by market forces. However, even when gaining access to credit, low-income groups have no capacity to negotiate credit conditions or housing typologies and are forced to comply with the housing solutions allocated by the economic and profitability considerations of the housing market.

68. Subject to financial logic, the housing market has not led to adequate housing solutions for the poor. In many cases, housing finance policies have resulted in increasing inequalities in access to housing, increased tenure insecurity, poor location and low habitability, social segregation and sometimes, increased homelessness.

69. Demand-side housing finance policies have been promoted with the aim of reducing State expenditures and overcoming problems related to social housing programmes, such as urban segregation. However, it has become evident that whether in the form of tax exemptions, "bail-outs" for financial institutions following housing market busts or subsidies for low-income households, States still invest huge public resources in housing. In addition, these policies have often resulted in problematic outcomes, similar to those affecting social housing.

70. Long-term rights-based assessment of the impact of housing finance on access to adequate housing for the poor is largely lacking. Available data focus

on the volume of lending and housing finance availability, and there is a shortage of consistent, reliable indicators on the performance of housing finance systems over time, especially regarding the housing conditions of the poor.

71. The Special Rapporteur calls for a paradigm shift from housing policies based on the financialization of housing to a human rights-based approach to housing policies. In this context, she makes the following recommendations:

(a) The promotion of access to adequate housing cannot be based solely on financial mechanisms. Broader State policies and interventions should be adopted, including, inter alia, public investments in infrastructure and basic services, human settlements upgrading and rehabilitation, urban planning and land policies, public financing, land and housing provision, rent regulation and related legal and institutional frameworks;

(b) The right to adequate housing should be respected and protected during the design, implementation and monitoring phases of housing policies and programmes and elaborated and implemented with the full participation of affected individuals and communities. The right to adequate housing should be understood as the right to live in conditions deemed adequate on the grounds of security of tenure; availability of services, building materials, facilities and infrastructure; affordability; habitability; accessibility; location; and cultural adequacy;

(c) The design of housing policies should be based on an assessment of adequate housing needs, taking into consideration the specific conditions in each country, in particular, demographic, geographic, economic and social conditions, and the characteristics and composition of the various disadvantaged groups (including low-income households), their housing conditions and forms of tenure;

(d) Housing policies should redress discrimination in access to adequate housing and promote the realization of the right to adequate housing for the most disadvantaged groups;

(e) States should refrain from focusing their housing policies on housing finance schemes with predominantly regressive effects, such as mortgage interest rate subsidies or mortgage interest tax exemptions;

(f) Integrated housing policies should be developed that target disadvantaged groups, including lower-income households. These policies and programmes should ensure access to affordable land and to the physical and social infrastructure that is needed to ensure adequate housing;

(g) States should promote alternatives to housing policies based on private credit and ownership, including through the development of a private rental sector. Adequate legal, financial and tax conditions should be created in order to encourage the supply of social rental housing as well as other forms of collective and individual tenure;

(h) States should promote a mixture of tenure systems, including a public housing sector that is not tied to liberalized markets and limited-profit rental or regulated rent schemes, in order to prevent social exclusion and segregation. A mixture of tenure solutions is essential for the promotion of

access to adequate housing for the various segments of society and in order to shield the housing sector from economic and financial shocks;

(i) Legal and institutional frameworks should be created to ensure security of tenure for the various forms of tenure, including rental tenure;

(j) Housing policies for low-income groups must be developed in consultation with these groups, who can best assess the systems that effectively meet their needs;

(k) States are under the obligation to constantly assess the impact of their housing policies and to adjust, when necessary, policies that are detrimental to the progressive realization of the right to adequate housing without discrimination. States should allocate the necessary funds to facilitate effective monitoring at all stages of housing programmes;

(l) In their ongoing assessment efforts, States should employ human rights indicators to identify trends that signal progress, stagnation or retrogression in the realization of the right to adequate housing. All indicators should be disaggregated by prohibited ground of discrimination in order to identify patterns of marginalization and discrimination;

(m) States should take prompt measures to increase the availability of adequate housing options, particularly for those most affected by sub-prime and predatory mortgage lending. States should prioritize funding and construction of public housing and the promotion of housing assistance in order to address the impact of the economic and financial crises on the most vulnerable;

(n) States should increase their expenditure on housing in order to circumvent the adverse impacts of the crises on the housing sector;

(o) States should ensure that recovery measures do not further erode social housing programmes and policies.